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RUEHAC/AMEMBASSY ASUNCION 0785  
RUEHBO/AMEMBASSY BOGOTA 7273  
RUEHBR/AMEMBASSY BRASILIA 5895  
RUEHBUT/AMEMBASSY BUENOS AIRES 1577  
RUEHLP/AMEMBASSY LA PAZ 2480  
RUEHPE/AMEMBASSY LIMA 0746  
RUEHSP/AMEMBASSY PORT OF SPAIN 3361  
RUEHQD/AMEMBASSY QUITO 2578  
RUEHSG/AMEMBASSY SANTIAGO 3896  
RUEHDG/AMEMBASSY SANTO DOMINGO 0406  
RUEHKO/AMEMBASSY TOKYO 0141  
RUMIAAA/HQ USSOUTHCOM MIAMI FL  
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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000511

SIPDIS

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD  
NSC FOR DTOMLINSON

E.O. 12958: DECL: 01/12/2017

TAGS: EPET ENRG EINV ECON JA VE

SUBJECT: MITSUBISHI GOES AFTER MAJOR REFINERY DEAL

REF: A. CARACAS 448  
¶B. CARACAS 241

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

¶1. (C) SUMMARY: The Mitsubishi trading company is putting together a USD 1.795 billion financing deal tied to the deep conversion project at the Puerto La Cruz refinery. The company believes the deal will come to fruition in one to two years. Mitsubishi also is involved in the shipment of base oil to China and recently made the first of what it hopes to be many sales of gas pipe to PDVSA. END SUMMARY

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MAJOR REFINERY DEAL IN THE WORKS  
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¶2. (C) Petroleum Attaché (Petatt) met with Venezuela Mitsubishi President Masashi Yoshihara (strictly protect) on March 6 to discuss recent events in the hydrocarbon sector. Yoshihara revealed that Mitsubishi is currently negotiating a major deal along the lines of the recent USD 3.5 billion Mitsui/Marubeni deal (Reftel A). Under the terms of the deal, Mitsubishi would arrange financing for the deep conversion project at the Puerto La Cruz refinery. (NOTE: Deep conversion is the refining process required to turn extra heavy crudes into lighter, less viscous oils. END NOTE). The Japan Bank of International Cooperation (JBIC) would play a key role in the financing arrangements. In return, Mitsubishi would be awarded the contract for the project. The financing package would include agreements with PDVSA to off-take crude oil and products during the loan period. Proceeds from the sale of the crude and products would be used to pay off the loan.

¶3. (C) Yoshihara believes that the deal will be finalized in the next year or two. He told Petatt that Mitsubishi was seeking a USD 30 billion dollar deal. (COMMENT: We believe that Yoshihara was referring to PDVSA's entire refining

project budget through 2012 rather than the Puerto La Cruz deep conversion project. We take his comments to mean that Mitsubishi is seeking a share in each of the numerous refinery projects that PDVSA claims it will develop by that date rather than a leading role in each of the projects. PDVSA's refinery plan includes among other things, three deep conversion projects, four new refineries, and a mega-upgrader. END COMMENT).

¶4. (SBU) The Puerto La Cruz Refinery has a current installed capacity of 200,000 barrels per day and processes medium to light crudes. The refinery supplies both local and foreign markets through the Guaranguao terminal, which has a monthly capacity of approximately 55 ships and a tank farm with 129 storage tanks.

¶5. (SBU) According to PDVSA, the deep conversion project will allow the refinery to shift from a diet of 31 API crude to heavier 21 API crude. The upgrade will require the remodeling of atmospheric distillation units DA-1 and DA-2 to respectively process 80,000 and 90,000 barrels of Merey heavy oil. In addition, the project will require the construction of a vacuum distillation unit with an installed capacity of 130,000 barrels per day and a deep conversion unit. PDVSA stated in 2006 that the refinery would be deep conversion capable by 2010. The estimated cost of the expansion was placed at USD 1.795 billion. In its 2004 business plan, PDVSA estimated the cost at one billion USD.

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OIL TO CHINA  
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CARACAS 00000511 002 OF 002

¶6. (C) Petatt was originally scheduled to meet with both Yoshihara and Mitsuhiro Yamasaki, Director of Mitsubishi's Energy Department. Yoshihara stated Yamasaki could not attend the meeting because he had to fly to Curacao to supervise the first shipment of Venezuelan base oil to China.

(NOTE: Base oil is an oil to which other oils or substances are added to produce a lubricant. END NOTE)

¶7. (C) Yoshihara stated Mitsubishi believes that acting as an agent for PDVSA oil sales to China and other parts of Asia may be an attractive business opportunity. When Petatt raised the issue of transportation costs, Yoshihara admitted that it was an issue and mumbled something about "FOB", which we take to mean "Free on board". He did not elaborate, including by noting where the oil would be FOB. He later added that Mitsubishi grouped the base oil shipment with other shipments and that this made the transportation costs more palatable.

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GAS PIPE  
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¶8. (C) Yoshihara said Mitsubishi also concluded a USD 7 million gas pipe sale to PDVSA. He added that PDVSA will be placing more tenders for gas pipe in the near future and Mitsubishi hopes to receive a significant number of the resulting contracts. Mitsubishi is considering the construction of a gas pipe depot or service center in Venezuela or Trinidad and Tobago to support its gas pipe sales.

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COMMENT  
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¶9. (C) Both JBIC and Japanese companies have recently been quite aggressive in looking for new business opportunities in Venezuela (Reftel A). Yoshihara stated a senior JBIC official will be visiting Venezuela soon. In addition, he said a senior official from the Ministry of Economy, Trade and Industry (METI) is also expected to meet with senior BRV officials in the near future. The recent push appears to explain Japanese Ambassador Matsui's attempt to sound the

Ambassador out on the current investment environment in Venezuela (Reftel B). We believe that Mitsui's formula of wedging project contracts and financing (with a healthy mix of JBIC financing to reduce risk) to off-take contracts for crude oil and products will prove popular with other major Japanese companies. Given PDVSA's need for technical skill and project financing as well as the BRV's stated desire to avoid the use of U.S. companies, Venezuela may prove to be quite lucrative for Japanese construction and engineering companies.

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